Constitutional Safeguards Against Centralization in Federal States: An International Cross-Section Analysis

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Abstract. This paper contains an international cross-section analysis of the share of central government expenditure in total government expenditure for a sample of about 50 countries and a subsample of 23 industrial countries in 1989–91. The expenditure shares, their changes and the unexplained residuals for each country are reported in Table 1. As the analysis demonstrates, the share of central government is significantly lower, if income per capita and the country’s area are large and if it is a federal state. The explanatory power of the equation rises considerably if the binary dummy for federalism is replaced by quantitative constitutional variables. The most powerful single explanatory variable is the age of the constitutional court in the complete sample or the constitutional court’s independence of union institutions in the sample of industrial countries. The equation’s explanatory power (adjusted for degrees of freedom) can be raised by allowing also for the degree of control which provincial institutions have over the constitution and over the second chamber and by taking into account whether an increase in federal tax rates requires a popular referendum. Other types of constitutional referenda and the relative age of the federal constitution do not seem to matter. Among the federal states, the share of central government is much larger than predicted in the United States and Mexico, and it is much smaller than predicted in Argentina and Canada. The constitutional variables are particularly helpful in explaining the relatively small share of central government in Switzerland, Malaysia, Germany and Austria. The last section draws conclusions for the design of constitutions with some special applications to the European Union.

JEL classification: H1, K3.

1. Introduction

In 1787, James Madison, the father of the U.S. Constitution, predicted:

The number of individuals employed under the Constitution of the United States will be much smaller than the number employed under the particular states (Federalist Paper No. 45, 1987, p. 291).

Two hundred years later, the personnel of the federal government had surpassed the personnel of all states combined. Almost all federal states have undergone a process of secular centralization, and in almost all federal states, federal government expenditure (including social insurance and grants) now exceeds one half of total public expenditure. The only notable exception from these two generalizations is Canada. At the same time, some previously highly centralized unitary states (like Spain, Belgium, and to a minor extent France and Italy) have decentralized.

In the German public-finance literature, the tendency of federal states to centralize is called “Popitz’ Law”, while Anglo-Saxon writers attribute to Lord Bryce the maxim that “federalism is merely a transient governmental form on the way to unity” (McWhinney 1962, p. 4). Popitz and his school (e.g., Popitz 1927) have attributed his “law” to technical...
progress that increases the domain of interjurisdictional externalities and generates spatial economies of scale and scope in the public sector as well as to a shift of preferences in favor of interpersonal redistribution and interregional equality of living conditions.

In a recent paper (Vaubel 1994), I have argued that the phenomenon of secular centralization in federal states can alternatively or additionally be explained by public-choice theory, and I have applied these explanatory theories to the European Union. Many Europeans fear that Europe will repeat the mistakes of the United States and end up as a fairly centralized state.

However, not all federal states are centralized to the same degree, nor have they been centralizing at the same speed. This paper raises the question of how these differences can be explained. Geographic, economic, social, and constitutional factors are considered.

William Riker, in his classic study on federalism, made the following observation:

As men engaged in expanding a government, they [the writers of federal constitutions] are much more likely to be preoccupied with practical expedients for the moment than with provisions for the distant and not clearly foreseen future. As centralizers, they are much more concerned with centralization itself than with fears that centralization may go too far (1964, p. 14).

A positive analysis of the causes of centralization in federal states may assist today's federal constitution-makers in Europe and elsewhere to better foresee the long-run effects of what they are doing. Which constitutional safeguards against creeping centralization are effective, and which are not?

2. The Dependent Variable

In this paper, the degree of political centralization is measured by the share of central government expenditure in total public expenditure. The relative regulatory power of central governments, unfortunately, cannot be quantified. Expenditure centralization is measured by the most comprehensive aggregate of government outlays available: consolidated government expenditure plus lending minus repayments (as published in the Government Finance Statistics Yearbooks of the International Monetary Fund). This measure of central government expenditure includes social insurance and grants to lower levels of governments. Since the degree of expenditure centralization depends on the business cycle (the share of central government being larger in a recession), three-year averages are used.

Table 1 reports the shares of central government expenditure for 65 countries, mostly for the years 1989–91, otherwise for the most recent three years since 1980 for which these data are available. The least centralized states are the Netherlands Antilles (44.8 percent), Canada (49.4 percent) and Switzerland (53.8 percent). On average, the federal states of 1989–91 are significantly more decentralized than the non-federal states ($t = 4.45, df = 18.1$), and the industrial countries are significantly more decentralized than the developing countries ($t = 3.19, df = 43.6$). Surprisingly, the average for the eight transforming countries (81.3 percent) is somewhat smaller than the average for the non-federal industrial countries (84.7 percent) but this difference is not statistically significant.